

# COMPLIANCE AUDIT

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## Warminster Township Police Pension Plan Bucks County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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December 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
Warminster Township  
Bucks County  
Warminster, PA 18974

We have conducted a compliance audit of the Warminster Township Police Pension Plan for the period January 1, 2017 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the lone plan member who retired and plan members who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Warminster Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

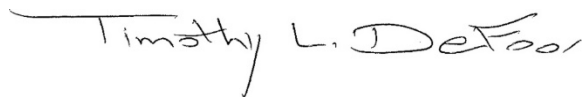
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Warminster Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Warminster Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent  
And Unauthorized Pension Benefits

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Warminster Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
November 22, 2021

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## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Warminster Township Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Warminster Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 631, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 2, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 43 active members, 7 terminated members eligible for vested benefits in the future, and 47 retirees receiving pension benefits.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Warminster Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent And Unauthorized Pension Benefits

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Recommendation – Inconsistent And Unauthorized Pension Benefits**

Condition: As disclosed in the most recent audit report, the collective bargaining agreement (CBA) between the police officers and the township provides a vesting benefit provision that conflicts with the plan’s governing document and is not in accordance with Act 600, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Vesting benefit	A member who has completed 12 or more years of service may elect to receive a vested benefit. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer, a Member may elect to be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using the monthly average salary during the thirty-six month period prior to his termination of employment.	The basic pension benefit described above computed at 50% of his “Final Average Monthly Earnings, Compensation and Wages will be reduced <i>pro tanto</i> to a proportion that is equal to the ratio determined by dividing the total number of years of full-time service rendered by the police employee with the township (numerator) by twenty-five (25) years, the minimum years of service required for a normal pension benefit (denominator).	The ordinance or resolution establishing the police pension fund may provide for a vested benefit. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using however the monthly average salary during the appropriate period prior to his termination of employment.

Furthermore, the definition of average applicable compensation contained in the plan’s governing document and the CBA could result in pension benefit determinations that are not authorized by Act 600.



WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Section 4.01 of Article IV of the plan’s governing document, states, in part:

The monthly pension to which such retired member shall be entitled to under this plan shall be equal to fifty percent (50%) of such member’s average applicable compensation.

Section 1.03 of Article I defines average applicable compensation as follows:

Average Applicable Compensation shall mean the average monthly earnings of the member at any time of reference computed over the last thirty-six (36) months of his continuous employment by the township.... For purposes of computing Average Applicable Compensation, actual monthly earnings shall include base wage pay or salary, overtime pay, vacation pay, longevity increment pay, shift differential, holiday pay, educational increment pay, sick pay, incentive pay, court time and on-call pay as well as any other direct monetary compensation, excluding however, reimbursed expenses, non-monetary compensation such as fringe benefits paid by the township.... (Emphasis added)

In addition, the CBA contains a similar definition of compensation.

Although Act 600 does not define “salary”, the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum severance payments or payments for accumulated leave earned outside the pension averaging period.

Pursuant to the provision in the CBA and the inclusion of payments for accumulated leave earned outside the pension averaging period in pension computations, the township is paying benefits to two police officers in excess of Act 600. In addition, the township has granted another individual a vested pension benefit (*It was noted that the township utilized 20 years of service as the denominator in the calculation.*) which is contrary to both Act 600 and the CBA relative to a vested pension benefit.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the pension plan’s benefit structure should be in compliance with the provisions of Act 600 and consistent amongst plan documents.

Cause: Plan officials again failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: The plan is paying pension benefits to two retirees in excess of those authorized by Act 600. As of the date of this report, the retirees are receiving excess benefits amounting to \$288 per month, which totaled approximately \$6,713, from their respective retirement dates through the date of this report. In addition, the township calculated a vested benefit for an individual electing to vest February 26, 2019, amounting to \$699 per month in excess of authorized monthly amounts pursuant to the plan document and Act 600 as well as the vesting provision prescribed in the CBA, which will commence November 2023.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. In addition, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 at their earliest opportunity to do so.

In addition, we recommend that municipal officials recalculate and limit the vested retiree’s benefit to pension amounts authorized under the vesting provisions of the CBA.

Management’s Response: Municipal officials agreed with the finding and recommendation without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2015, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 24,954,495	\$ 31,484,457	\$ 6,529,962	79.3%
01-01-17	26,307,932	33,534,247	7,226,315	78.5%
01-01-19	29,506,885	38,300,263	8,793,378	77.0%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a ceiling of 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,008,293	\$ 1,008,293	\$ -	\$4,479,390	22.51%
2015	1,143,610	1,143,610	-	4,349,962	26.29%
2016	1,113,215	1,316,114	(202,899)	4,100,000	32.10%
2017	1,782,181	1,782,181	-	4,409,180	40.42%
2018	1,600,490	1,600,490	-	4,737,616	33.78%
2019	1,620,981	1,620,981	-	4,908,376	33.02%
2020	1,971,614	1,971,614	-	5,026,944	39.22%

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205 subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	In accordance with Act 600, however, not to exceed 5% in any one year.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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**Mr. Kenneth M. Hayes**  
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Township Supervisor

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Acting Township Manager

**Mr. John Ramey**  
Finance Director

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